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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-Q

■ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended May 29, 1992 or

□ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-19524

TECNOL MEDICAL PRODUCTS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	75-1516861
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

PROCESSED BY
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JUL 17 1992

7201 INDUSTRIAL PARK BLVD.
FORT WORTH, TEXAS 76180
(Address of principal executive offices)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Registrant's Telephone number, including area code: (817) 581-6424

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes _____ No _____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

12,933,666 shares common stock, par value $.001, as of June 30, 1992

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TECNOL MEDICAL PRODUCTS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Information

TECNOL MEDICAL PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	Nov. 29, 1991	May 29, 1992 (unaudited)
Current assets:		
Cash and cash equivalents	$24,148,034	$13,379,234
Accounts receivable, net of allowance for doubtful accounts of $41,778 in 1991 and $82,738 in 1992	9,894,448	9,509,526
Interest receivable	80,319	7,595
Raw materials inventory	5,030,341	6,888,016
Work-in-process inventory	183,734	105,279
Finished goods inventory	2,920,829	2,979,891
Total inventories	8,134,904	9,973,186
Prepaid expenses	606,933	984,752
Deferred federal income tax receivable	136,283	181,283
Total current assets	43,000,921	34,035,576
Investment in Anago Incorporated (Note 4)	—	9,096,760
Property, plant and equipment, at cost:		
Land	1,824,183	2,691,861
Buildings	5,327,228	8,124,041
Automotive equipment	1,509,089	1,749,283
Manufacturing equipment	12,998,709	14,816,503
Office furniture and equipment	1,924,348	2,170,416
Construction-in-progress	2,014,325	904,334
	25,597,882	30,456,438
Less accumulated depreciation	8,420,063	9,437,779
Net property, plant and equipment	17,177,819	21,018,659
Other assets:		
Patents and trademarks, net of accumulated amortization of $80,500 in 1991 and $98,515 in 1992	354,873	630,295
Debt issuance costs	165,804	182,350
Deposits	14,800	108,700
Purchased intangible assets (Note 5)	—	3,853,766
Total other assets	535,477	4,755,111
Total assets	$60,714,217	$68,906,106

See accompanying Notes to Condensed Consolidated Financial Statements

TECNOL MEDICAL PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Continued)

	Nov. 29, 1991	May 29, 1992 (unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – trade	$1,798,350	$2,015,314
Accounts payable – investment in Anago (Note 4)	—	1,469,292
Accrued property taxes payable	318,541	222,696
Accrued bonuses payable	249,744	390,017
Accrued commissions payable	285,016	400,784
Other accrued liabilities	875,227	572,228
Federal income tax payable	455,463	590,577
Current portion of long-term debt	204,366	203,395
Total current liabilities	4,186,707	5,864,303
Long term debt (Note 3)	4,301,319	4,100,000
Deferred federal income tax payable	2,128,479	2,213,479
Total liabilities	10,616,505	12,177,782
Stockholders' equity (Note 2):		
Preferred stock, $.001 par value, 20,000,000 shares authorized, no shares issued	—	—
Common stock, $.001 par value, 50,000,000 shares authorized, 14,016,755 shares issued in 1991 and 14,076,205 shares issued in 1992	14,017	14,076
Additional paid-in capital	22,207,080	23,648,085
Loans to employee stock ownership plan	(226,721)	(226,721)
Retained earnings	31,523,689	36,540,591
	53,518,065	59,976,031
Less treasury stock, at cost: 1,222,515 shares in 1991 and 1,143,539 shares in 1992	3,420,353	3,247,707
Total stockholders' equity	50,097,712	56,728,324
Total liabilities and stockholders' equity	$60,714,217	$68,906,106

See accompanying Notes to Condensed Consolidated Financial Statements

TECNOL MEDICAL PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Quarters and Year-to-Date Periods Ended May 31, 1991 and May 29, 1992

	Quarter Ended		Year-To-Date	
	May 31, 1991 (unaudited)	May 29, 1992 (unaudited)	May 31, 1991 (unaudited)	May 29, 1992 (unaudited)
Net Sales	$14,279,011	$17,063,640	$26,536,169	$30,642,634
Cost of goods sold	7,024,650	8,211,810	13,383,949	15,006,190
Gross profit	7,254,361	8,851,830	13,152,220	15,636,444
Selling expenses	2,625,624	3,210,877	5,107,377	5,930,713
General and administrative expenses	876,777	1,195,402	1,742,875	2,338,191
Income from operations	3,751,960	4,445,551	6,301,968	7,367,540
Other income (expense):				
Interest income	42,870	143,594	79,560	384,282
Interest expense	(59,952)	(32,001)	(126,067)	(85,291)
Other—net	(816)	(65,555)	(2,088)	(68,293)
Total other income (expense)	(17,898)	46,038	(48,595)	230,698
Income before provision for income taxes	3,734,062	4,491,589	6,253,373	7,598,238
Provision for income taxes:				
Current	1,238,266	1,487,437	2,001,565	2,541,336
Deferred	32,000	40,000	100,000	40,000
	1,270,266	1,527,437	2,101,565	2,581,336
Net income	$2,463,796	$2,964,152	$4,151,808	$5,016,902
Net income per common and common equivalent share (Note 2)	$0.21	$0.23	$0.35	$0.38

See accompanying Notes to Condensed Consolidated Financial Statements

TECNOL MEDICAL PRODUCTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Year-to-Date Periods Ended May 31, 1991 and May 29, 1992

	Year-to-Date	
	May 31, 1991	May 29, 1992
Cash flows from operating activities:		
Net income	$4,151,808	$5,016,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	866,397	1,051,860
Amortization	12,174	161,866
(Gain) loss on sale of property, plant and equipment	261	2,626
Increase in deferred federal income taxes	100,000	40,000
(Increase) decrease in accounts receivable	(2,882,278)	384,922
(Increase) decrease in interest receivable	(13,786)	72,724
Increase in inventories	(1,180,752)	(1,838,282)
Increase in prepaid expenses	(773,837)	(377,819)
Increase in accounts payable	369,319	1,686,256
Decrease (increase) in accrued liabilities	248,720	(142,803)
Increase in federal income tax payable	520,565	135,114
Total adjustments	(2,733,217)	1,176,464
Net cash provided by operating activities	1,418,591	6,193,366
Cash flows from investing activities:		
Investment in Anago Incorporated	-	(7,587,015)
Proceeds from sale of property, plant and equipment	9,000	9,961
Purchase of property, plant and equipment	(1,848,845)	(4,905,287)
(Increase) decrease in other assets	38,355	(4,381,500)
Net cash used in investing activities	(1,801,490)	(16,863,841)
Cash flows from financing activities:		
Net additions to short-term borrowings	100,000	-
Payments on long-term debt	(259,179)	(202,290)
Purchase of treasury stock	-	(58,987)
Net proceeds from issuance of common stock	119,650	162,952
Net cash used in financing activities	(39,529)	(98,325)
Net decrease in cash and cash equivalents	(422,428)	(10,768,800)
Cash and cash equivalents at the beginning of the period	2,473,107	24,148,034
Cash and cash equivalents at the end of the period	$2,050,679	$13,379,234
Supplemental disclosures:		
Cash paid during the period for:		
Interest	$139,032	$119,003
Income taxes	$1,481,000	$2,409,343
Noncash investing and financing activities:		
Exchange of treasury stock for Anago Incorporated common stock	$ -	$1,509,745

See accompanying Notes to Condensed Consolidated Financial Statements

TECNOL MEDICAL PRODUCTS, INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the generally accepted accounting principles for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the quarters and year-to-date periods ended May 31, 1991 and May 29, 1992 are not necessarily indicative of the results that may be expected for the fiscal years ended November 29, 1991 and November 27, 1992, respectively.

The Company's fiscal year is the fifty-two or fifty-three week period ending on the Friday nearest to November 30. The quarter and year-to-date periods include thirteen and twenty-six weeks, respectively.

NOTE 2 -- EARNINGS PER SHARE

The following table reconciles the number of common shares shown as outstanding on the consolidated balance sheet with the number of common and common equivalent shares used in computing primary earnings per share:

	Quarter		Year-to-date	
	May 31, 1991 (unaudited)	May 29, 1992 (unaudited)	May 31, 1991 (unaudited)	May 29, 1992 (unaudited)
Common shares outstanding	11,375,970	12,932,666	11,375,970	12,932,666
Effect of using weighted average common and common equivalent shares outstanding	(27,960)	(3,539)	(38,135)	(66,499)
Effect of assuming exercise of outstanding stock options based on the treasury stock method	438,245	202,105	439,495	209,597
Shares used in computing primary earnings per share	11,786,255	13,131,232	11,777,330	13,075,764

Primary and fully diluted earnings per share are not materially different.

NOTE 2 -- EARNINGS PER SHARE -- Continued

Earnings per common and common equivalent share were computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the periods. Stock options are the only common stock equivalents.

NOTE 3 -- LONG-TERM DEBT

Long-term debt at May 29, 1992 consists of the following:

Industrial Revenue Bonds	$4,300,000
Less current portion	(200,000)
	$4,100,000

NOTE 4 -- INVESTMENT IN ANAGO INCORPORATED

During the first six months of fiscal 1992, the Company acquired from former stockholders of Anago Incorporated ("Anago"), a manufacturer of medical supplies, approximately 42% of Anago's outstanding common stock, all of Anago's outstanding Series A Preferred Stock, and certain related rights. Anago has refused to register the purchased shares in the Company's name which have been submitted for transfer. Also, Anago and its president claim a right to purchase shares previously purchased by Tecnol representing approximately 11% of Anago's outstanding common stock. Through the end of the second quarter, the Company had paid $5,570,935 and had an obligation to pay approximately $1.5 million more in connection with these stock purchases. The Company expects that substantially all of these payments will be made before the end of the third quarter. In addition to the cash payments, the Company paid for a portion of the Anago stock with 82,726 shares of Company treasury stock.

The Company sought to negotiate a merger with Anago. Anago responded unfavorably to the Company's merger proposal and instituted a lawsuit to enjoin the merger. The Company has attempted to obtain representation on Anago's board, under provisions of Anago's preferred stock, but Anago has refused to recognize the appointment of the Company's two nominees. Anago has also refused to recognize the Company's right as preferred shareholder to convert the preferred stock to common stock. If the Company did convert the preferred stock, the Company would own approximately 55% of Anago's common stock.

The Company does not exercise any influence over the operating or financial policies of Anago. Because the Company lacks any influence, management believes that the consolidation of Anago's financial statements or accounting for this investment by the equity method is inappropriate. Therefore, the investment in Anago is being accounted for by the cost method. The Company believes that any difference between the equity method and the cost method would

be immaterial. The Company requested second quarter financial information from Anago management, but it was not supplied.

NOTE 5 -- ACQUISITIONS OF PRODUCT LINES

On January 31, 1992, the Company closed the purchase of two product lines for approximately $2.8 million. The principal product line purchased was the Warm 'N Form® line of orthopedic products, the principal portion of which is the Warm 'N Form® line of moldable back supports. This acquisition involved the purchase of inventories, equipment, and certain intangible assets.

On May 29, 1992, the Company closed the purchase of the Filtermask® brand surgical face mask product line for approximately $2.6 million. This acquisition involved the purchase of inventories, equipment and certain intangible assets.

Item 2. **Management's Discussion and Analysis of Financial Condition and Results of Operations**

This analysis of the Company's operations encompassing the quarters and six month periods ended May 31, 1991 and May 29, 1992, should be considered in conjunction with the condensed consolidated balance sheets, statements of operations, and statements of cash flows.

Results of Operations

Net sales increased 19.5% from $14.3 million in the second quarter of fiscal 1991 to $17.1 million in the second quarter of fiscal 1992. For the six month period, net sales increased 15.5% from $26.5 million in the first six months of fiscal 1991 to $30.6 million in the first six months of fiscal 1992. This growth in net sales resulted from increases in unit sales of existing products, sales from product lines acquired in 1992, and, to a lesser extent, price increases.

The gross profit margin increased from 50.8% in the second quarter of fiscal 1991 to 51.9% in the second quarter of fiscal 1992. For the six month period, gross profit increased from 49.6% in the first six months of fiscal 1991 to 51.0% in the first six months of fiscal 1992. These increases were due to price increases, the effects of manufacturing cost reduction programs, and efficiencies from production volume increases. Direct labor costs as a percentage of net sales declined from 7.0% in the second quarter of fiscal 1991 to 6.0% in the second quarter of fiscal 1992. Manufacturing overhead as a percentage of net sales also declined from 13.5% in the second quarter of fiscal 1991 to 11.3% in the second quarter of fiscal 1992. Costs of material as a percentage of net sales increased from 29.3% in the second quarter of fiscal 1991 to 30.9% in the second quarter of fiscal 1992.

Selling expenses increased 22.3% from $2.6 million in the second quarter of fiscal 1991 to $3.2 million in the second quarter of fiscal 1992. For the six month period, selling expenses increased 16.1% from $5.1 million in the first six months of fiscal 1991 to $5.9 million in the first six months of fiscal 1992. The increase in selling expenses was primarily a result of an increase in the sales force from 56 sales representatives at the beginning of fiscal 1991 to 67 sales representatives at the end of the first six months of fiscal 1992. As a percentage of net sales, selling expenses have increased slightly from 18.4% of net sales in the second quarter of fiscal 1991 (19.3% in the first six months of fiscal 1991) to 18.8% of net sales in the second quarter of fiscal 1992 (19.4% in the first six months of fiscal 1992).

General and administrative expenses increased 36.3% from approximately $877,000 in the second quarter of fiscal 1991 to $1.2 million in the second quarter of fiscal 1992. For the six month period, general and administrative expenses increased from $1.7 million in the first six months of fiscal 1991 to $2.3 million in the first six months of fiscal 1992. These expenses increased as a percentage of net sales from 6.1% in the second quarter of fiscal 1991 (6.6% in the first six months of fiscal 1991) to 7.0% in the second quarter of fiscal 1992 (7.6% in the first six months of fiscal 1992). General and administrative expenses include research and development expenses that increased by 18.3% from $213,000 in the second quarter of fiscal 1991 to $252,000 in the second quarter of fiscal 1992. Included in general and administrative expenses for the first time in 1992 is amortization expense of certain intangible assets purchased

in connection with the acquisition of the Warm 'N Form® line of orthopedic products. Amortization expense in the second quarter of fiscal 1992 was $53,665, and $71,553 for the first six months of fiscal 1992. The balance of the increase in general and administrative expenses from 1991 to 1992 resulted from the general growth of the Company, additions to and changes in the responsibilities of the executive staff, and additional costs associated with being a public company.

Income from operations increased 18.5% from $3.8 million in the second quarter of fiscal 1991 to $4.5 million in the second quarter of fiscal 1992. For the six month period, income from operations increased 16.9% from $6.3 million in the first six months of 1991 to $7.6 million in the first six months of 1992. Operating margin decreased slightly from 26.3% in the second quarter of fiscal 1991 to 26.1% in the second quarter of fiscal 1992. For the six month period operating margin has increased from 23.7% in the first six months of fiscal 1991 to 24.0% in the first six months of fiscal 1992.

Other income (expense) represented income of approximately $46,000 in the second quarter of fiscal 1992 (approximately $231,000 in the first six months of fiscal 1992), compared to expense of approximately $18,000 in the second quarter of fiscal 1991 (approximately $49,000 in the first six months of fiscal 1991). These changes resulted from lower interest expense due to declining debt balances and declining interest rates, and from increases in interest income because of larger investments, primarily from the proceeds of the initial public offering. Included in other income (expense) in the second quarter of fiscal 1992 is amortization expense of certain purchased intangible assets. This amortization expense was $73,729 for the second quarter and the first six months of fiscal 1992.

Net income increased 20.3% in the second quarter of fiscal 1992 over the corresponding period in fiscal 1991, from $2.5 million to $3.0 million, as a result of the foregoing factors. For the six month period, net income increased 20.8%, from $4.2 million in the first six months of fiscal 1991 to $5.0 million for the first six months of fiscal 1992. Net income per share increased from $0.21 in the second quarter of fiscal 1991 ($0.35 in the first six months of fiscal 1991) to $0.23 in the second quarter of fiscal 1992 ($0.38 in the first six months of fiscal 1992). The increase in earnings per share was limited because the weighted average number of common and common equivalent shares increased by approximately 11%, primarily due to the initial public offering in October 1991. The Company estimates that earnings per share will be diluted by approximately 10% in the first three quarters of fiscal 1992 as compared to fiscal 1991 as a result of additional shares issued in the initial public offering.

Liquidity and Capital Resources

In October 1991, the Company received approximately $18.7 million (net of underwriting discounts, commissions, and expenses) in proceeds from the public sale of 1,265,000 shares of its common stock. The Company believes that the net proceeds from its initial public offering and cash flow from operations will be sufficient to meet working capital requirements and capital expenditures for the foreseeable future. The Company also believes these sources will enable it to acquire product lines or businesses related to the Company's business if appropriate opportunities arise.

The Company's working capital decreased from $38.8 million at the end of fiscal 1991 to $28.2 million at May 29, 1992. The decrease in working capital is primarily because of a decrease in cash and cash equivalents resulting from the use of the proceeds of the initial public offering for the following purposes:

1. On January 31, 1992, the Company closed the purchase of two product lines for approximately $2.8 million. See Note 5 of Notes to Consolidated Interim Financial Statements for further discussion.

2. On February 10, 1992, the Company purchased a 130,000-square foot building on 18 acres of land for approximately $2.4 million to be used for additional manufacturing, warehouse, and office space. The Company expects to invest approximately $600,000 during 1992 to renovate this building. The Company plans to consolidate the sales, management, product development, manufacturing, and warehouse operations of its orthopedic division in this facility.

3. During the first six months of fiscal 1992, the Company acquired an investment in Anago Incorporated, a manufacturer of medical supplies. See Note 4 of Notes to Condensed Consolidated Interim Financial Statements for further discussion of this investment.

4. On May 29, 1992, the Company closed the purchase of a surgical face mask product line for approximately $2.6 million. See Note 5 of Notes to Consolidated Interim Financial Statements for further discussion.

Inventories have increased from $8.1 million at the end of fiscal 1991 to $10 million at May 29, 1992. Approximately $1.0 million of the increase in inventories is the result of the acquisition of the Warm 'N Form® and Filtermask® product lines as discussed in Note 5 of Notes to Consolidated Interim Financial Statements. The remaining increase in inventories is due to the continued growth of the Company's product lines and the increase in certain key raw materials in order to meet increased production levels.

The Company incurred approximately $4.9 million in capital expenditures during the first six months of 1992, consisting of approximately $2.4 million for the 130,000 - square foot building on 18 acres of land and approximately $2.5 million for new manufacturing equipment, building expansion and remodeling, and miscellaneous items.

PART II - OTHER INFORMATION

Item 1. **Legal Proceedings.**

On March 4, 1992, the Company filed suit against Anago Incorporated ("Anago") in the State District Court of Dallas County, Texas, A-14th Judicial District, Cause No. 92-3056. The suit was brought in the Company's capacity as assignee of stock and claims held by former preferred shareholders of Anago. The suit asserts breach of contract and warranty, state securities law violations, violation of Section 27.01 of the Texas Business and Commerce Code, common law fraud, negligence, and gross negligence, and seeks recovery of actual damages in excess of the jurisdictional limit of the court, punitive damages, attorneys' fees, prejudgment and postjudgment interest, and costs. The suit alleges that Anago sold the preferred stock to the original preferred holders pursuant to misrepresentations concerning Anago's financial condition in that the true value of the 533,334 shares of preferred stock purchased for $7.50 per share was actually $5.00 per share or less.

Item 6. **Exhibits and Reports on Form 8-K.**

(a) Exhibits - None

(b) A Report on Form 8-K was filed on March 12, 1992 reporting the commencement of a tender offer to purchase up to 200,000 shares of the common stock, $0.01 par value, of Anago.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Tecnol Medical Products, Inc.
(Registrant)

Date: July 10, 1992

David Radunsky, *Chief Operating Officer*

Jeffrey A. Sick, *Controller*
(Principal Accounting Officer)